

## Message Text

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10  
ORIGIN ABF-01

INFO OCT-01 ISO-00 A-01 TRSE-00 OPR-02 M-02 FS-01 AID-20

EB-11 NSC-07 EA-11 /057 R

DRAFTED BY M/FRM/FM:RPWHITENER:SLW

APPROVED BY A:RWMURRAY

TREASURY:OASIA:RTOMCHO (SUBS)

TREASURY:BA:CHIODO (SUBS)

TREASURY:GC:HHAPPEL (SUBS)

A/ALS:ECURTIS (SUBS)

BF/FS:MHINES (SUBS)

EA/EX:ECOLANTONIO (DRAFT)

A/BF:RWMURRAY

AID:AA/SA:RNOUTER (INFO)

EB:TENDERS (INFO)

NSC:CCOOPER (INFO)

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R 271753Z JUN 74

FM SECSTATE WASHDC

TO AMEMBASSY PHNOM PENH

C O N F I D E N T I A L STATE 138844

E.O. 11652: GDS

TAGS: ABUD, AFIN, ALOW, AFSP

SUBJECT: REQUEST FOR PREFERENTIAL RATE OF EXCHANGE

REF: A. PHNOM PENH 5519

B. PHNOM PENH 5911

C. PHNOM PENH 6207

D. STATE 91851

E. STATE 92506

F. STATE 106760

G. PHNOM PENH 7121

FOR AMBASSADOR FROM ASSISTANT SECRETARY FOR ADMINISTRATION

1. WE ARE CONCERNED HERE AT YOUR REPORTS OF ADVERSE

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EFFECTS ON USG PERSONNEL STEMMING FROM THE RECENT

TERMINATION OF THE COST OF LIVING ALLOWANCE. WHILE THE DEPARTMENT HAD NO ALTERNATIVE TO TERMINATING THE COLA WHEN YOUR RETAIL PRICE SCHEDULE FOR FEBRUARY REFLECTED LIVING COSTS 12 PERCENT BELOW THOSE CURRENT IN WASHINGTON, WE WILL REVIEW ANY CURRENT-SCHEDULE YOU MAY SUBMIT PROMPTLY AND SYMPATHETICALLY TO DETERMINE THE JUSTIFICATION FOR RESTORATION. THE SUBMISSION SHOULD BE COORDINATED WITH UNIFORMED SERVICE PERSONNEL IN PHNOM PENH.

2. AS YOU REQUESTED, WE HAVE EXPLORED WITH TREASURY THE FEASIBILITY OF ESTABLISHING A PREFERENTIAL RATE FOR

THE CAMBODIAN RIEL FOR BOTH OFFICIAL EXPENDITURES AND ACCOMMODATION EXCHANGE. TREASURY NOW ADVISES THAT UNDER STATUTORY AUTHORITIES ANY APPROVAL OF SPECIAL RATES MORE FAVORABLE THAN THE PREVAILING RATE IN ANY COUNTRY MUST BE BASED UPON ANTICIPATED BENEFIT TO THE U.S. BALANCE OF PAYMENTS OR OVERALL BUDGETARY SAVINGS. IN THE PAST, THESE CRITERIA HAVE IN PRACTICE LIMITED PREFERENTIAL RATES TO COUNTRIES DESIGNATED EXCESS OR NEAR-EXCESS. TREASURY WILL CONSIDER WHETHER THE KHMER REPUBLIC CAN BE DESIGNATED AN EXCESS OR NEAR-EXCESS CURRENCY COUNTRY SHORTLY WHEN IT MAKES EXCESS DETERMINATIONS FOR FY 1975.

3. FOR OFFICIAL EXPENDITURE TRANSACTIONS, UNIFORM USG POLICY, REGULATION AND PRACTICE ARE CONSISTENT IN REQUIRING THE USE OF THE PREVAILING RATE IN DETERMINING DOLLAR CHARGES TO AGENCY APPROPRIATIONS FOR OFFICIAL EXPENDITURES IN LOCAL CURRENCIES, AS WELL AS IN DETERMINING THE NUMBER OF LOCAL CURRENCY UNITS TO BE PAID OUT TO LIQUIDATE A DOLLAR-DENOMINATED OBLIGATION. EXCEPTIONS FOR LIMITED PURPOSES ARE MADE BY TREASURY IN EXCESS CURRENCY COUNTRIES ONLY WHEN JUSTIFIABLE UNDER THE PROVISIONS OF SECTION 8 OF OMB CIRCULAR NO. A-20 DATED MAY 21, 1966. THESE EXCEPTIONS ARE APPROVED ONLY WHEN THEY WILL PERMIT OR FACILITATE A REDUCTION IN THE AMOUNT OF U.S. DOLLARS THAT WOULD OTHERWISE BE SPENT ABROAD. THEREFORE, A SPECIAL RATE FOR ALL OFFICIAL EXPENDITURES IN RIELS IS NOT FEASIBLE.

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4. WITH REGARD TO ACCOMMODATION EXCHANGE: WAR RISK, THE EXISTENCE OF BLACK MARKETS IN CURRENCY, AND DIFFERENTIALS BETWEEN CURRENT PRICES ON SUCH MARKETS AND LEGAL RATES, ARE NOT IN THEMSELVES ACCEPTABLE BASES FOR ESTABLISHING SPECIAL TREASURY RATES. INFLATION OF PRICES IN LOCAL CURRENCY IS ALSO NOT CONSIDERED A JUSTIFICATION FOR SPECIAL RATES; ADJUSTMENT OF ALLOWANCES WHERE WARRANTED IS THE PROPER METHOD FOR COMPENSATING EMPLOYEES FOR

INCREASED PERSONAL EXPENDITURES RESULTING FROM THEIR ASSIGNMENT ABROAD. AT THIS TIME, THE TREASURY DEPARTMENT BELIEVES THAT ECONOMIC CIRCUMSTANCES IN THE KHMER REPUBLIC DO NOT JUSTIFY A PREFERENTIAL RATE. TO OBTAIN SUCH A RATE, YOU WOULD HAVE TO, AT THE MINIMUM, DEMONSTRATE TO THE SATISFACTION OF THE TREASURY THAT THE SPECIFICALLY PROPOSED BETTER RATE WOULD RESULT IN ONE OR MORE OF THE FOLLOWING: DECREASING THE FLOW OF DOLLARS ABROAD, INCREASING THE FLOW OF DOLLARS TO THE TREASURY FROM ACCOMMODATION EXCHANGE SALES, OR REDUCING USG OVERALL BUDGETARY COSTS. EVIDENCE OF OVERVALUATION OF THE RIEL IN THE FORM OF AN INCREASING SPREAD BETWEEN BLACK MARKET AND LEGAL RATES WOULD BE HELPFUL.

5. WE OF COURSE WILL HELP IN ANY WAY WE CAN TO DEVELOP AND PRESENT YOUR CASE FOR A PREFERENTIAL ACCOMMODATION EXCHANGE RATE TO THE TREASURY EFFECTIVELY. HOWEVER, YOU MUST GIVE US JUSTIFICATION WHICH MEETS TREASURY CRITERIA FOR THE ESTABLISHMENT OF SUCH RATES. WE HOPE THE INFORMATION ON CRITERIA PROVIDED HEREIN WILL HELP YOU TO DEVELOP ACCEPTABLE JUSTIFICATION. SISCO

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## Message Attributes

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**To:** PHNOM PENH  
**Type:** TE  
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